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Note: [redacted] by
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INTELLIGENCE HIGHLIGHTS -- WEEK OF 27 JANUARY - 2 FEBRUARY 1948

GENERAL

Chinese fear US policy in Japan

*political have
might have been
mentioned*
Chinese fear of a resurgent Japan under US policy is again emphasized in Chinese press articles commenting on the Japan reconstruction program proposed to the FEC by the US. The Ta Kung Pao on 28 January sharply criticized the US plan, charging the US with the desire to control Japanese industry so as to permit the US through Japan to dominate East Asia in peace or war, and with the intent to industrialize Japan so highly that the "industries of Asiatic countries, especially those of China," will be unable to compete with Japanese industries "supported by America's huge capital." The paper suggests that such all-out aid will only cause China to change its hatred for Japan to the US and will precipitate a boycott against Japanese and US goods by all Asiatic countries.

The Hankow Central Daily News on the same date commented that the program may be agreeable to China if, in principle, it does not go beyond the limit of China's "lenient" policy toward Japan. However, the paper continues that in reducing the burden of occupation, the US may be giving Japan the golden opportunity to rise again.

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JAPAN

Two hundred Japanese Communists purged. It has been the practice during the past two years for the Central Screening Committee of the Japanese Government to purge individuals, using the directives laid down by SCAP as a yardstick for judging the merits of each individual. For the first time since the early months of the Occupation, SCAP has directly purged individuals. Two hundred Communist coal miners and mine union leaders were purged for obstructing coal production. It is reported that a similar move may soon have an antiseptic effect on the electrical workers' union which is one of those most openly communist-dominated.

This move should strengthen the hand of the Labor Ministry currently attempting to organize anti-communist sentiment in the labor unions while it weakens the efforts of the Communist Party to interfere with vital production. The Communist Party suffered a considerable loss of prestige when MacArthur called off the February, 1947 general strike and SCAP may anticipate similar results from this move.

Rise in stock prices reflects Japanese optimism. Since 1 December 1947 the prices of stocks being traded in on Japanese stock markets have been rising as much as two and three hundred points. The rise is all the more marked because the prices of Japanese stocks had been at a very low level. The speculation had led to official suspension of stock trading and the prospect of increased governmental control.

Initially, the rise was due to varied factors. These included official assertions of the possibility of revision of corporate taxes, and the removal of dividend limitations, realization that many companies shortly will complete their reorganizations, and possibility of formal wage controls.

Impetus was added to the upward surge of prices when the US representative to the FEC announced that plans for "Operation Crank-up" would shortly be submitted to the US Congress. At about the same time, news of the contemplated devaluation of the French franc resulted in rumors of possible devaluation of the Japanese yen. As a result, many black-marketers converted cash into stocks.

The sharp increase in stock prices largely reflects the optimism of Japanese business men for the future. Apparently, they are of the belief that the major phase of reorganization in order to meet occupation policies has been completed. A formal wage control would of course also be a stabilizing influence from the business men's point of view; pressure by labor for wage increases has lent impetus to the vicious inflationary spiral. Finally, and most important, implementation of Operation Crank-up would be the "shot-in-the-arm" that is necessary to pull Japanese industry above the present level which has remained fairly constant for about a year at only about 40 percent of the 1930-34 level.

However, the degree of price rise should not be over-emphasized. Trading in Japanese stocks is still on an unofficial level and is on a limited basis. As a result, prices are extremely sensitive to changes in volume of trading.

Tax collections. Teams are being organized to aid in tax collections throughout Japan. This drastic action is the result of the poor record of the tax collectors. At the end of 1947, over 100 billion yen of an estimated 130 billion yen remained to be collected.

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This new step in tax collection is another effort by the authorities to increase governmental revenues. Deficit financing by the government is one of the chief causes of the current inflation. Inadequate tax collection puts further pressure on the spiral. It is interesting to note that delinquent taxes amount to about one-half of the current note issue.

Reparations. Central News Agency has reported the departure from Japan on 27 January 1948 of the second Chinese reparations ship. (The first ship appears to have left a Japanese port just after the beginning of the year). Cargo is said to be 559 crates of machinery and tools removed from Tokyo and Yokosuka arsenals.

These shipments represent the first installments of reparations under the advance interim reparations plan which was instituted in the Spring of 1947. Under that plan, SCAP was authorized by a US unilateral directive to deliver 30 percent of the goods earmarked for reparations under the interim removals program as advance payment on the final reparations account. The advance transfers of the interim reparations program are to be distributed as follows: a maximum of 15 percent to China, 5 percent to the Netherlands East Indies, 5 percent to the Philippines, and 5 percent to the UK for its Far Eastern possessions.

There have been indications that the official view of the Philippines is shifting to reparations from current production rather than removals of specific plants. This view has it that the cost and time consumption involved in the dismantling, crating and shipping of plants is prohibitive.

KOREA

Prospects for UN-observed elections in South Korea. Soviet preparations for establishing a separate North Korean government, which will be greatly accelerated beginning 6 February, may strengthen the US case in the Little Assembly for holding elections in South Korea alone. The scheduled adoption of a "Korean Constitution" by the North Korean People's Committee, along with other moves aimed at creating an "independent" state, should serve to weaken possible UN objection that a UN-observed election for South Korea alone will only accentuate the present division of the country. The US has contended that the division is desired and maintained by the USSR and that UN action cannot worsen the situation. The Little Assembly may be convinced by these impending Soviet moves in North Korea that the US charges are justified.

Concerns more than one
F&P country - should
be a general item.

Is this now a fact? If
not, might better be
stated as "any case the US
may present"

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CHINA

Military

In the Manchurian fighting, Communist forces captured the important rail junction of Hsinlitun giving the Communists an uninterrupted rail line from Tsitsihar to Hsinlitun and the front. The Nationalists had claimed previously that their success in holding Hsinlitun against determined Communist assaults constituted a major victory. The Nationalists are thus rather seriously flanked west of Mukden, in the very area where they must establish and maintain overland communications from China proper to Mukden, if they are to remain in Manchuria. Nationalist units have made local gains near Kirin and southeast of Ssipingkai, while their air force claims to have carried out an extremely damaging raid on the Communists' supply center at Liaoyuan. However, the next major action will apparently take place in the area between Heimin and Chinchou. Communist units have struck out from the Tahushan, Heishan area midway between the two cities and have already occupied Kouantze, northeast of Chinchou. The Manchurian winter, now in the period of the "great cold", coupled with food and fuel shortages, continues to plague the Nationalist house in Manchuria.

A shortage of Nationalist regulars in Shantung as a result of troop removal to reinforce Manchuria, has forced the Nationalists to turn eastern Shantung over to peace preservation troops and local commanders. There was renewed, but rather small-scale Communist activity in northwest Shansi, but Hopei and the regions south of the Lungai witnessed little military action during the week. However, there was a sudden Communist military renaissance in the Chitung peninsula just across the Yangtze from Nanking and Shanghai. Communist units, who appear to be regulars from the command of Chen Yi, have struck at a number of towns and reached points within thirty miles of Nanking and sixty-five miles of Shanghai. It is not yet clear whether any of these units succeeded in crossing the Yangtze; if such a crossing has been accomplished, they will seriously menace the Shanghai-Nanking railway.

Internal Political

Evidence that the National Government's feeling of insecurity is growing can be found in reports that some members of that Government are pinning their hopes on an amicable coalition with the Communists rather than successful completion of the war against them. The possibility that such a coalition could be effected seems very remote, in view of the traditional reluctance of either side in the civil war to give up any immediate military advantage in return for a mere pledge, no matter how heartfelt it may appear, from its opponent. However, rumors that the National Government will make overtures to the Communists continue. The latest of these rumors states that Li Tsung-jen, Director of the Generalissimo's North China Headquarters, will be "elected" Vice President and then seek a rapprochement with the Communists under USSR auspices. It is further stated that Chiang Kai-shek would be prevailed upon to "retire" and the hold of the rightists on the Government would be thrown off. Such a development is, however, beyond the power, either military or political, of any group within the National Government at present.

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The final results of the election of National Assembly delegates, already delayed three times, are reported to have been postponed indefinitely. (A quorum, however, has been announced -- see Far East Weekly, 19/13-19 January 1948). The delay results from the disagreement between the Kuomintang, the Democratic Socialists and the Young China Party over the distribution of seats. Minority party candidates nominated by the Kuomintang were not elected because the voters wrote in unofficial Kuomintang candidates, who now refuse to resign. The Democratic Socialists threaten to boycott the National Assembly meeting at present scheduled to meet 29 March unless they receive all their promised seats. If the disagreement is not resolved, the postponement of the meeting of the National Assembly may be expected.

Leaflets reminding the Taiwanese of the approaching anniversary of the February 1947 revolt (which was ruthlessly put down by National Government troops) were widely circulated on the island. Resentment against the National Government, which has long been smouldering on Taiwan, continues another uprising on the island seems likely, although its imminence cannot be judged.

Economic

Currency. The official "open" US dollar selling exchange rate was raised on 27 January from CN \$115,000 to 121,000. The Shanghai black-market rate was unusually erratic the last few days of January, ranging between CN \$150,000 and 180,000. The blackmarket rate was CN \$152,000 on 1 January, rose to over 200,000 on 8 January, and fluctuated between 150,000 and 190,000 during the last half of the month. Six months ago this rate stood at CN \$40,000 while a year ago it was only CN \$7,500 to US \$1 on the Shanghai blackmarket.

Prices. The recent intensified anti-inflationary measures appear to be wearing off. Although the price of rice increased only slightly, to CN \$1,450,000 on 30 January from 1,400,000 of the previous week the tendency was definitely upward in basic commodities.

Since is clear enough, but it does seem an awkward sentence

North China Economic Crisis. The economic situation in North China is deteriorating instead of improving. The civil war has brought on serious disruptions in communications and production. Industry in Tientsin that is dependent on imported raw materials is confronted with shutting down. Food is short in Nationalist areas although is reported relatively plentiful in Communist sections.

Nationalist-held Mukden is facing a food and coal shortage. Only one month's supply of food is reported on hand, with less than 3,000 tons daily available from the countryside. Early relief prospects are dim as the Communists have cut the railroad leading from North China. A food crisis is foreseen in the Northeast in general in the next few months if present political and military conditions do not improve.

The Kailan coal stockpile in North China is now reported at

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800,000 tons, and daily output at 13,000 tons but only small shipments are being made. Tsingtao has only two weeks supply with industry nearly at a standstill. The Government has ordered 100,000 tons from abroad for Shanghai. The seriousness of the North China crisis is reflected in the Government's action to resort to using its dwindling foreign exchange to import coal.

Foreign Trade. Reports from up-country collecting centers indicate that between 1,500,000 and 1,750,000 Yangtze Valley goatskins will be available for export this season providing transportation conditions do not deteriorate further. In the pre-war period China was the second largest world supplier of goatskins. Her exports to the US alone between the years 1928 and 1935 averaged 7,800,000 pieces per annum. >

worth.
Turkish Chargé d'Affaires at Nanking has reportedly proposed a barter trade agreement between Turkey and China. Turkey would exchange tobacco leaves for Taiwan tea and Shanghai-made appliances.

External Political

Separated from Internal Political by Economic
The Chinese Government has agreed to pay indemnities for damage to British property recently destroyed in Canton. However, there has been no progress in Sino-British talks regarding Kowloon.

There are recurring rumors in Nanking of a growing movement among Nationalist officials for a Sino-Soviet rapprochement with a view to invoking Soviet mediation in the Chinese civil war.

*See p. 4
This should
not
have
been seen. Suggest combining all "Political" items under one
heading.*
The State Council, on 23 January, amended regulations governing the entry of foreign vessels into Chinese territorial waters by permitting US vessels servicing the Army Advisory Group to call at Chinese ports without advance permission from the Ministry of National Defense.

Government Information Director Hollington Tong admitted his embarrassment in confirming that he had criticized the USIS when speaking "off the record" to students at the Central Political Institute on 28 January. Tong had been reported as saying in his lecture that during the last six months 90% of the editorials from American newspapers released by USIS in China were critical of the Chinese Government while some editorials of particular interest to China were omitted. 25X1

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INDOCHINA

Cao Dai and Hoa Hao sects sign pact. The pact signed on 27 January between the Cao Dai and Hoa Hao political-religious sects of Cochinchina was an apparent attempt to halt further discord and non-cooperation among anti-Viet Minh nationalists who support the return of former Annamite emperor Bao Dai. (See Far East Weekly of 26 January 1948). Up to the present these two religious groups have been the most militant in the National Union Front coalition, and have fought beside the French against the Viet Minh guerrillas in the area. In the presence of officials from the Provisional Government of South Vietnam (Cochinchina), representatives of the French administration, and the chief leaders of the sects, the unification agreement was signed by the "Pope" of the Cao Dai and the Commanding General of the Hoa Hao forces at the residence of Le-van-Hoach, former president of the Cochinchinese government and Political Commissioner of the Cao Dai.

The pact, to be valid for one year, is reported to have included the following pledges: (1) to support Bao Dai in his negotiations with the French to realize the independence and unity of Vietnam within the French Union; (2) to protect the resistance elements which support Bao Dai; (3) to cooperate with all parties to realize the common aim; (4) to request Bao Dai to return to Indochina and establish a democratic constitutional monarchy; (5) to resist the elements which continue to prevent peace and to fight any totalitarian plan; and (6) to protect the lives and property of the French in Vietnamese territory. The Cao Dai promised to reserve peace and order in the eastern sector of Cochinchina, while the Hoa Hao will be responsible for the western half. Plans were made to appoint a ruling committee which will work out measures to implement the program.

Although this unification is at present only on paper, its fulfillment may indicate that the necessary cooperation of anti-Viet Minh nationalists is possible and may lead to further agreements among those Vietnamese groups which support Bao Dai and which want to exclude Ho Chi Minh from any part in a new regime.

Siam

Political

Results of the 29 January Siamese general elections are not complete, but the latest returns indicate that candidates of the conservative Democratic Party led by Premier Aphaivong carried the majority vote in Bangkok. Provincial election results, not yet reported, are expected to conform generally to the Bangkok vote pattern. Contrary to some expectations, the election was conducted in an orderly manner and was neither rigged nor obstructed by interference from the military clique.

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SIAM (continued)

The provisional government of Premier Aphaiwong is expected to resign 6 February, but it will carry on as a "caretaker" government until the new government assumes office. The newly elected Parliament will hold its first session, probably on 16 February, to elect the Prime Minister who will be, in all probability, a compromise selection to satisfy Army requirements as well as the wishes of the majority party in Parliament. The man conforming to these requirements may well be the present Minister of Interior, Luang Sinat, who is honest, strong and popular with the Army. On the other hand, Premier Aphaiwong may rally enough strength in Parliament to be returned as Prime Minister.

HM-M-M

Economic

The current open exchange rate in Siam is 1 dollar to 20 baht (tical) or when reduced to easily understood terms, is a nickel a tical.

PHILIPPINES

Amnesty for collaborators. Congressional concurrence is expected to *begin* President Roxas' 28 January proclamation granting amnesty to those accused of political or economic collaboration with the Japanese. Possible developments resulting from this amnesty proclamation are discussed in a separate ORE study. *now in preparation.*

Roxas' State of the Nation message. President Roxas' State of the Nation speech to the opening session of Congress on 26 January painted a rosy picture of economic progress in the Philippines and, as was anticipated, stressed financial policy and industrial development. Roxas laid down to Congress a 20-point legislative program which included recommendations for the following measures: establishment of a central bank; granting of presidential authority to control imports and luxury taxes; construction of hydro-electric power projects and fertilizer plant on borrowed funds (yet to be borrowed); redemption of Philippine National Bank notes, emergency notes, and authorized guerrilla currency; granting of presidential authority to guarantee foreign loans; authorization of the government to guarantee bank losses on home loans; requirement that insurance companies invest a 50 percent minimum of their reserves in the Philippines; establishment of a social security system for the low wage group; a new census; and fixing of the new capitol site.

Congressman-elect seated. Jose Cando, minority (Democratic Alliance) Congressman-elect since 1946, was sworn into office 29 January. Previously denied a seat in Congress because of alleged election irregularities, Cando was seated following a statement of the House electoral tribunal that the election protest against Cando had been dismissed. During the 21-month interval between his election and his acceptance by Congress, however, Cando had resigned from the leftist, pro-Huk Democratic Alliance and had applied for Liberal Party membership.

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Of the seven Congressmen-elect who were refused seats in Congress in 1946, three have now been seated. Two others are awaiting action by the House election tribunal. Little hope is entertained in Congressional circles, however, for the seating of the remaining two -- Luis Taruc and Jesus Lava -- both of whom are still sought by the Philippine Constabulary.

Roxas urged to grant Hukbalahap amnesty. A resolution has been filed in the Philippine Congress asking President Roxas to grant "conditional" amnesty to members of the dissident Hukbalahap. Support for Huk amnesty has increased in both houses of Congress and has been discussed at informal conferences between the Senate President and minority leaders. While details of the proposed "conditional" amnesty are not yet available, it is believed unlikely that Roxas would consider amnesty without some provision requiring the Huks to surrender their arms.

Whether the President will now consider amnesty at all is still an open question in view of his recent statements branding the dissidents as "bandits and Communist led groups" and calling for an armed showdown "as quickly as possible" (See FE/P Weekly, 20-26 January). The realities of the present situation may, however, force Roxas to act at variance with his public utterances. The President is undoubtedly aware that the Government's repeated attempts to solve the dissident problem through military and police measures have ended in failure. The President may also prove sensitive to the argument that amnesty to the Hukbalahap follows logically from the recently granted amnesty to collaborators since the administration may find itself in a difficult if not untenable position by discriminating against the Hukbalahap, which physically resisted the Japanese invaders, while granting amnesty to those who held office in the Japanese-controlled occupation government.

AUSTRALIA

Economic. Prime Minister Chifley warned the Australian people 26 January of the "acute difficulties" which Australia will suffer should British dollar reserves be depleted. The need for Australia to achieve a balance of trade with dollar countries is dictated by the fact that gaps between her exports and imports must be made up out of British reserves. Despite current Australian import restrictions and efforts to increase exports, her dollar imports for 1947-48 will total 90 million pounds as against 63 million in 1946-47. *what's the trade deficit?*

Several leading British industrialists arrived in Australia 24 January to discuss the expansion of existing Australian industries and the establishment of new ones. This may be the first step in the direction of decentralizing the Empire's industrial power by increasing Dominion production with the use of British capital and equipment. It represents a considerable departure from the traditional British policy of discouraging Dominion secondary industry in order to preserve markets for the UK's manufactured goods.

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Reaction to devaluation of the franc. Australia reacted critically to the French devaluation of the franc, chiefly because of its possible effect on the value of sterling in the world market. A financial expert stated that should sterling be depreciated, the relationship of Australian currency to sterling would have to be reviewed.

The effects of the French move on direct French-Australian trade will be felt most strongly in Australian wool exports. The Wool Realization Commission expects a drop in sales because of the higher prices to French buyers, but observers pointed out that the French need is so great that purchases may not be restricted.

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